PGIM FIXED INCOME

Transcript

Robert Tipp, CFA, Chief Investment Strategist and Head of Global Bonds: Let's discuss some highlights from our second quarter outlook. It wasn't too surprising to see a bit of a rest in high quality fixed income in the first quarter. Spreads narrowed, but this was offset by a modest rise in government yields. So net-net returns on High-Quality Fixed Income stalled. But this breather, a bit of a pivot, was to be expected after the big drop in rates drove a huge rally in the fourth quarter of 2023. As for the high yielding fixed income sectors like Emerging Markets and High Yield Corporates, however, the party went on as a search for yield drove spreads tighter by more than enough to offset the small increase in government yields.

So where to from here?

We're likely to see more of the same, maybe much more time spent with yields traversing these higher ranges for rates. And what we see is a strategic buy zone for bonds. Rates are high and central banks are so far keeping rates high to get inflation back down to target.

What about the prospects for rate cuts?

Despite the likelihood of rate cuts ahead, long rates may still stay in their recent higher range as a lot of the expected easing may already be priced in and factored into this level of long-term yields.

Is this a bearish scenario for the bond market?

Hardly. This is our High Plains Drifter scenario where we see a continuation of this unusual yield is destiny bull market in bonds, fueled not by a quick drop in yields, but simply by the accrual of the high level of yield itself. We expect further positive contribution to returns in the quarters ahead from credit product, albeit at a reduced pace given current spread levels and the potential opportunity to add alpha will contribute to fixed income returns as well.

We highlight some of the left behind sectors where catch of spread narrowing seems likely, along with much more detail in our individual sector deep dives. So, take a look and thanks for your attention.